



Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA
Form: Mark L. Wyssbrod, Managing Member
Date: September 2, 2012
Re: What I Learned At The Southeast Accounting Show

In order to keep my license as a CPA I am required to spend 80 hours over a two year period in continuing education courses. These days are difficult, but enjoyable. They are difficult (bare with me for a moment) because I need to get into the office at 5 a.m. the days of the classes to work until 7 a.m.; then attend class from 7 a.m. to 5:30 p.m. (including travel time); sit in rush hour traffic to get back to the office; and then answer e-mails and return calls from 5:30 p.m. to 8 p.m. **The days of learning are incredible joyful as I am naturally drawn to data and information to see how I can apply it to a client or my firm to improve the lives I touch.**

I spent back-to-back days (August 29th and 30th) at the Southeast Accounting Show. I would like to share some high lights with you. At the bottom of each note I included a section answering “**Why is this important?**” I hope this information is helpful to you and your organization.

- Economic Forecaster Said:
 - Most individuals do not understand the powerful transition in our economy due to demographics (aging of Americans) nor the powerful technology *revolution* (increase in efficiencies) we are currently in the stages of
 - **Why is this important?**
 - It is hard to adapt and survive in an environment which you do not understand
- The Waffle House CFO Said:
 - Their experts projected the costs of the Health Care Act to their business in 2013 will be 80% of current year profits!
 - **Why is this important?**
 - No one understands the Health Care Act and the implications it will have on business!
 - This may lead to a significant change in spending habits which may have a dramatic effect on the economy
- #1 Catch of Fraud
 - Your employees life-style change
 - **Why is this important?**
 - See the next items discussing Internal Controls!
- Internal Controls

- Layers of internal control include:
 - Control Environment
 - Risk Assessment
 - Control Activities
 - Information and communication
 - Monitoring Activities
- **Why is this important?**
 - Small businesses do not invest in accounting systems or internal controls
 - Therefore they are vulnerable to misdeeds including fraud
- Cash Forecasting
 - A business should have 90 days or more of cash on hand
 - This is a far cry from most small businesses who drawn their working-capital and equity out via cash distributions
 - A formula to use:
 - $(\text{Cash} + \text{Liquid Investments} + \text{Available Line of Credit}) / \text{Daily Cash Out} = \text{Availability}$ which needs to = or > 90 days
 - In challenging cash environments businesses should forecast cash on month basis
 - The forecast should be:
 - Rolling forward
 - Compared to actual
 - scheduled out by month for 3 months (90 days)
 - Quote from the cash flow expert: “A sale is not made when a contract is signed; but a sale is made when cash is collected.”
 - **Why is this important?**
 - Most small businesses have complained about poor cash flow for the past few years, but few plan to improve it and few forecast it
- In challenging times businesses need to *immediately*:
 - Raise cash
 - Raise Prices
 - Discontinue unprofitable lines and services
 - Eliminate expenses
 - Re-examine business plan, etc.
 - Look for a new champion!
 - Release poor performing team members
 - **Why is this important?**
 - We could be on the cusp of the next recession; the time to act is now!
- Steps to take in a recession
 - Survive!
 - Build cash

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- Tighten Accounts Receivable policies
- Work with vendors for Accounts Payable policies
- **Why is this important?**
 - We could be on the cusp of the next recession; the time to act is now!
- Sales driven companies do not understand costs
 - A result is margin crunches which can result in bankruptcy
 - **Why is this important?**
 - A lot of small business owners are good at sales and leadership, but lack financial experience
- Why do businesses fail?
 - Fear of boss
 - Feedback from the team is not given
 - Softened by success
 - The drive, need for sacrifices, self-improvement has been replaced by arrogance and complacent attitude
 - Dysfunctional board
 - In small businesses the board, manager and employee are generally the same individual
 - This individual does not hold any of the roles they are playing accountable
 - Too much risk!
 - The reward should be worth the risk
 - Currently, small businesses are taking too much risk for too little reward
 - Due to environment?
 - Due to extreme leverage ratio
 - Acquisition risk
 - Matching cultures and operations in business difficult
 - Dangerous Corporate Culture
 - Attitude check
 - The boss should not be able to do something no one else is allowed to do
 - This destroys moral
 - See no Evil
 - Team members and management turn a blind eye to information they do not want to hear
 - Management
 - 95% of business failures are due to poor management
 - 5% is due to bad luck
 - **Why is this important?**
 - Recognize the signs and make improvements to your weaknesses



- Use Altman’s Z-score to determine the health of your business
 - http://en.wikipedia.org/wiki/Altman_Z-score
 - When comparing your business, never use straight forward industry data
 - Industry data includes waste and business losing money
 - You want to benchmark to the profitable companies in your industry
 - Try using the “Almanac of Business & Industrial Financial Ratios”
 - <http://www.amazon.com/Almanac-Business-Industrial-Financial-Ratios/dp/0808027859>
 - **Why is this important?**
 - You might be satisfied with your business if you benchmark against a low level, but this will not help you improve your financial position (this will give you a false sense of security)
- Replace the works “Client Deposits” with “Contract Liability” on your financial statements
 - **Why is this important?**
 - This could lead to less scrutiny by tax agencies
- Small businesses do not understand International Accounting Standards
 - Rent would show up as an Asset and Liability?!?!
 - I thought it was an expense!
 - **Why is this important?**
 - The US is heading to International standards, but business owners, managers and investors, nor financial institutions, understand these rules
- Compensation Bonuses
 - Do not pay team members to achieve budgets, pay for goals
 - **Why is this important?**
 - Budgets are mis-understood and don’t allow us to aim as high as goals
 - Do not pay bonuses for improvements if the entire industry is improving
 - **Why is this important?**
 - The team member did nothing special if everyone in the industry improved by the same amount

Please contact me should you have any questions, comments or would like to know how to apply this information to you or your organization. I hope this helps!

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